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REFORMS OF THE 1990S**

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**Abstract**

Population income is now the best tool used to measure the level of social welfare. Analysis of the situation in Russia at the beginning of the 1990s testified to the fact that the processes of transformation taking place in the country were distinguished by a deep nature, affecting and changing the models and regulators of social activity. Such new types of income as the ones from private property and entrepreneurial activity have appeared in the structure of Russians' incomes. The beginning of the 1990s is characterized by the creation of a legal and regulatory framework for state regulation of income and wages. The destruction of social norms and relations that had been established in Soviet times was observed within the framework of the market processes development. However, new value systems able to replace them were not formed. The country faced a number of acute social problems, like a significant decline in the standard of living due to a real incomes reduction, an increase in non-payment of salaries, and unemployment. By 1996, Russia was on the cusp of being completely destroyed as a state in general. With the development of market processes, labor ceased to be the most important value and necessity for transforming society and significantly lost its positions. The increase in social tension in society with the beginning of market transformations in the economy further contributed to an increase in the role of the state policy of income and wages in ensuring the living standard of the nation.

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*Keywords:* Income, wages, inflation, consumer price index, income and wage policies, living standards



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## **1. Introduction**

In economically developed countries, income policy is one of the most important elements of economic management. Its development is based on current assessments and predictive modeling of the structure, levels and dynamics of household income. These data are taken into account by both government and business structures. The task of regulating the household income was especially urgent for countries with economies in transition since there was a contradiction between the limited resources for solving social issues and attention to the demand being one of the main engines of economic growth.

## **2. Problem Statement**

To study the impact of market processes on the Russian national income generation and level during the economic system transformation in the 1990s.

## **3. Research Questions**

In the scope of this article, the analysis of the 1990s market processes impact on the generation, level and dynamics of the incomes of the Russian population was carried out. The strategy implemented in the country during the period of the income and wages policy transformation was investigated, and its importance for ensuring a decent standard of living for Russians was determined. Its shortcomings are noted.

## **4. Purpose of the Study**

The purpose of this study is to analyze the level and dynamics of the incomes of the Russian population under the conditions of the Russian market economy formation and development in the 1990s, to determine the role of the state on the formation processes and the degree of income differentiation in such a difficult period for the country.

## **5. Research Methods**

In carrying out this research, the following scientific methods were used: a method of statistical analysis, functional analysis, comparative analysis. Positive and normative analysis was also applied. Scientific work was carried out based on the principles of consistency and scientific objectivity.

## **6. Findings**

In Russia, the 1990s were characterized by a decrease in the level and quality of the citizens' life, which was a consequence of a significant drop in the real income of the population. By 1996, the country had already been on the verge of a complete economic and social degradation, even its political existence as a state was under threat. Thus, the share of expenditures in science, which determines the future

development of the state in the post-industrial world, was more than 6 times lower than the threshold value (Azieva & Taymaskhanov, 2019).

On the eve of the Russian reforms in the early 1990s, the media raised the problem that the accounts of Sberbank of the USSR contained huge amounts of household savings and all the troubles of the budget deficit were stipulated by their excess. It was also noted that the growth of wages outstripped the growth of the economy, people lived too well, etc., and therefore it was necessary to sharply raise prices for consumer goods and services in the country to solve the problem of budget deficit. And such a statement, having been unequivocally supported by M. Gorbachev, N. Ryzhkov and P. Pavlov, began to be actively implemented. Various direct and indirect measures leading to higher prices in the economy were used. Soviet society accustomed to stable prices and low wages was subjected to intense psychological pressure, literally the population of the country experienced shock. It should be noted that for many decades, low prices were the payment of the state, its compensation to the population for the inability to raise the standard of living. Price stability contributed to the achievement of a certain socio-psychological balance in society providing a sense of security.

The shock therapy policy proposed by the International Monetary Fund for financial stabilization or rather destabilization and leading to the depreciation of the Soviet citizens' savings on January 1, 1992 aimed not to develop market processes in Russian society but to collapse the rest of the former powerful Soviet state, Russia. The tangible results of the shock therapy were as follows: the rise in consumer prices was not 3.5 times as the President stated but 26 times, which made it impossible for most Russians to purchase even essential goods. Thus, according to official estimates, by the end of 1992, about one third of the population had had incomes below the subsistence level. The total cash savings of the population in 1992 were 2.3 times less than in 1991 relative to the average monthly consumer spending, and savings in organized forms (deposits, stocks, loan stocks, etc.) were about 4 times less. Despite certain measures such as adjusting wages, pensions, allowances, scholarships depending on inflation, etc., undertaken by the country's Parliament with the objective to alleviate the situation, the rise in consumer prices continued to outpace the growth in monetary incomes of the population (Khasbulatov, 1994).

Table 1 below demonstrates the dynamics of consumer prices in Russia since the beginning of market reforms, which confirms the ideas presented above.

**Table 1.** Dynamics of consumer prices in Russian economy (from 1991 to 1997) (Gishkhaeva, 2013)

Indicators	1992	1993	1994	1995	1996	1997
Consumer price index (by the previous year)	26.1	9.4	3.2	2.3	1.2	1.1
Consumer price index (by 1992)	–	9.4	30.1	69.2	84.2	93.5

During the 1980s, the USSR economy lagged behind the economies of developed countries and this lag was increasing more and more, although the per capita income in the USSR increased and reached the highest level of \$7078 in 1989. If it had kept growing at the rate of the 1980s in 2002, per capita income in Russia could have reached \$10,400 and the European level of 1973, thus, the gap would have remained at the level of 20 years, and not 40 years as it was in the early 2000s (Klepach et al., 2002).

In 1991–1994, the fall in national income reached 54 %, which was comparable only with the beginning of the war of 1941–1945. The deficits of the annual state budgets of these years reached one quarter of the GNP. The role of Russia as a raw material appendage of the world economy increased (Khasbulatov, 1994). In 1993, the real wages in the country amounted to only 43 % of the 1990th level, the R/P 10 % ration of income differentiation increased from 8 to 11.2 times, the overall decline in real incomes of the majority of the population reached more than 2 times (Savchenko & Kokina, 2000). In conditions of high inflation in the first half of the 1990s, the level of the minimum wage, having lost its connection with the subsistence minimum, fluctuated within 10-20 % of the subsistence minimum (Bulatov, 1999).

It should be noted that most of all, the structural changes in food spending are determined by the income of the population. The crisis of the 1990s led to more than a twofold decrease in household income and an increase in the share of food expenditures in the structure of consumption spending from 35 % in 1990 to 52 % in 1995 and to 54 % in 1998-1999 (Zubarevich & Safronov, 2019).

Despite the positive aspects associated with the growth of real incomes of the population since the beginning of the 2000s, including wages, the standard of living of Russian society, even by 2004, lagged behind the pre-reform times.

During the period of hyperinflation, in 1992, the Law on the Indexation of Monetary Income and Savings of Citizens in the RSFSR was adopted, and although the indexation was restrained to some extent, it could not compensate all the losses of the population, especially those related to savings in Sberbank. According to the former Chairman of the Central Bank V. Gerashchenko, prices increased 30 times, and money was printed only 2.2 times more (Are we slaves?, 2004). Naturally, it was not enough, but the money printing press was not used since inflation was officially recognized. As the prominent economist I. Nit, who died suddenly after the publication of his findings, noted, it was about the continuation of the deflationary policy. The ideas of I. Nita were then mathematically substantiated in the article written by V. Cherednik, surprisingly quickly following the first (Are we slaves?, 2004).

Thus, according to some Russian scientists, there was not inflation but deflation in the country and such a substitution of concepts was carried out in order to make Russia borrow money abroad at interest, thus satisfying the monetary hunger in the country. After the liberalization of prices in Russia, it turned out to be 1/3 of the global volume of green waste paper, while since August 15, 1971, the dollar has ceased to be exchanged for gold. It was reliably calculated that the West received 100 kg of gold or the equivalent of oil, gas, timber, etc. for 10 kg of one hundred dollar bills from us (Are we slaves?, 2004).

New types of income were formed in the structure of the population's income, specifically, the one from private property, entrepreneurial activity. Thus, for 1990–1993, the share of income from property in the structure of monetary income started growing from 2.5 to 3 %, and the share of income from entrepreneurial activity from 8.7 to 18.6 %, while the proportion of wages decreased from 74.1 to 58 % (Savchenko & Kokina, 2000). This period is characterized by the formation of a regulatory and legal framework for state regulation of income and wages by issuing various regulatory documents, such as the decree of the President of the Russian Federation on accelerating the privatization of state and municipal enterprises; laws “On personal income tax”, “On employment in the RSFSR”, “On medical insurance of

citizens of the Russian Federation”, “On education”, “On the fundamentals of the federal housing policy”, etc.

The strengthening of the market factor in the distribution of income was manifested in the fact that many enterprises began to independently determine the systems of remuneration and labor rationing, often ignoring the requirements of the Labor Code, the Standard Wage-Rates and Skills Reference Book as well as other regulatory documents. In this period, the role of the financial and credit system, foreign exchange and stock markets, speculative capital and income from the shuttle business began to increase in the formation of the population’s income.

The shadow economy equal to up to 40 % of GDP, according to some estimates, as well as the fact that huge funds were sheltered from taxation and exported abroad, largely limited the state’s ability to regulate income. The negative contribution of corruption should also be noted (Goskomstat RF, 2000). The fight against it acquired an increasingly important role in the policy of incomes and wages development.

By the end of the 1990s, there were no significant changes in the country in terms of improving the situation with increasing real incomes of Russians. In 1998, the real income of the population was about 40 % of the 1990 level, having decreased by 2.5 times, while the decline in GDP was 1.5 times (Savchenko & Kokina, 2000). Social tension in the form of increased the number of strikes and their participants increased. The R/P 10 % ratio of income differentiation was 13.4 in 1998 (Savchenko & Kokina, 2000). The inefficiency of interbudgetary and financial-credit relations was revealed. Funds for wages and pensions allocated at the federal level remained in commercial banks not reaching their destination. This aggravated the problem of late wages, benefits and pensions payment. A particularly difficult situation developed in the coal industry, education, and healthcare. The ineffectiveness of state regulation of incomes led to the financial crisis in August 1998, when, as a result of the devaluation of the ruble, incomes and savings depreciated, and the purchasing power of the ruble sharply decreased.

The post-crisis period is associated with the growing role of state control over income and wages. Special attention was paid to reducing wage and pension arrears, improving taxation and distribution of transfers, as well as controlling inflation. In 1999, the pensions and wages in the public sector were indexed.

In many European social states, great attention is paid to ensuring that the income ratio of the richest 10 % to the poorest 10 % does not exceed 7:5:1 (in Sweden this ratio is 4:1), while the gap cannot exceed 8–10:1, while in Russia this gap was approximately one order of magnitude higher, and the Gini coefficient fluctuated within 0.55–0.00 (Kholostova, 2006).

Let us consider the dynamics of the income ratio for 1992–2000 in Russia in Table 2.

**Table 2.** Dynamics of income ratio in the Russian Federation for 1992–2000 (Kholostova, 2006)

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000
R/P 10 % ratio	8.0	11.2	15.1	13.5	13.0	13.5	13.8	13.9	13.7

As we can see, there was an increase in the ratio of funds, which in 2000 in relation to 1992 increased by about 1.71 times or by 71 %, although in 2000 compared to 1999 there was a slight decrease.

For the developed countries of the West in 1997 the value of this indicator was 10, and in the social states of Western Europe it was within 5–10 times, while in the same year the maximum level equal to 19.0 was recorded in the USA, and the minimum one being 4.4 in Austria (Kholostova, 2006).

On the whole, the analysis of the situation in Russia testified to the fact that the ongoing transformations were of a profound nature, affecting and changing the models and regulators of social activity. The destruction of old and customary social norms and relations took place but new value systems had not been formulated by the time. For example, the principle of “equality in poverty” was no longer a social norm but at the same time the prevailing polarization of incomes, when there was a significant number of the super-rich against the background of a significant number of the economically disadvantaged, poor citizens, was also not perceived calmly by society. This also applied to the official attitude towards the value of labor. In the era of market transformations, labor, which was the primary necessity and value in Soviet society, lost its position significantly due to the fall in the level of wages, non-payment of wages and unjustified differentiation.

It is worth noting that in addition to inequality in earnings caused by industry affiliation, in Russia there was also a difference in wages for men and women employed in the same industry. This manifested itself not only in the general level of wages but also in the hourly wages. Thus, only in the metalworking industry, the average hourly wage of women was higher than that of men, while in the remaining 18 industries women lagged behind men, and the maximum gap was 2.8 times (coal mining enterprises), and the minimum was only 2 % (in education) (World Bank, 2000). Over the years under study, there was a decline in the proportion of women in such spheres of the economy as trade, public catering, lending, finance, insurance, which were previously distinguished by the predominance of women in the number of employed. The increase in the proportion of men and the displacement of women in these sectors was caused by a significant increase in the wages of workers employed here.

## 7. Conclusion

Thus, the country faced the beginning of an era of transformation with a number of various acute social problems that required an urgent solution from the state. Afterwards, this has resulted in strengthening the state policy of income and wages in ensuring the living standard of the population.

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